

Instructions for Idaho Form 56

GENERAL INSTRUCTIONS

A net operating loss (NOL) is the amount that Idaho taxable income, after making a few modifications discussed later, is less than zero. Individuals, C corporations, trusts and estates are allowed a deduction in computing Idaho taxable income for an Idaho NOL. S corporations and partnerships are not allowed an NOL deduction. Instead, any losses are passed through to the shareholders and partners.

For tax years beginning on and after January 1, 2000, you must generally carry an NOL back to the two preceding tax years. The loss carried back is limited to a maximum of \$100,000. The loss is first applied to the second tax year preceding the loss year. Any loss not fully subtracted or absorbed from Idaho income is next applied to the first preceding tax year. Any loss not absorbed in the carryback years and the loss in excess of \$100,000 can be carried forward up to 20 years. Losses carried forward are applied to each year in order until absorbed.

You may elect to forego the carryback period and carry the loss forward. This election must be made by the due date, including extensions, of the loss year return. The election cannot be revoked.

If you are filing Form 40, 43 or 41, the election is made by checking the box on the loss year return electing to forego the carryback period. If you check the box, you do not need to attach a separate statement electing to forego the Idaho carryback period.

If you are filing Form 66, attach a statement to the loss year return identifying the fiduciary's name, address, employer identification number, the amount of the NOL, and a statement that the fiduciary is electing to forego the Idaho carryback period, or attach a copy of the federal election to forego the federal NOL carryback to the Idaho loss year return.

For tax years beginning prior to January 1, 2000, you generally must carry an NOL back to the three preceding tax years unless you made a timely election to forego the carryback period. The carryback is limited to a maximum of \$100,000. Any loss not absorbed in the carryback years and the loss in excess of \$100,000 can be carried forward up to 15 years.

CALCULATION OF NOL AND INCOME AVAILABLE FOR ABSORPTION

The year(s) to which an NOL is applied is referred to as an absorption year(s). Certain adjustments must be made to

taxable income or loss to calculate the NOL and how much income is available for absorption in the year to which the NOL is carried back or carried forward.

To compute the NOL, any NOL carryovers deducted from previous years must be added back. This is the only adjustment a corporation will need to make to compute its NOL.

In addition to adding back any NOL carryovers, individuals, trusts and estates must add back any federal net capital losses deducted on the return. Individuals will also need to add back the Idaho capital gains deduction. Adjustments will be made in Part I.

The same adjustments that are made in computing the NOL must be made in Part II in computing the income available for absorption of the NOL. Part II will need to be completed for each absorption year. If you have more than two absorption years to which the NOL will be carried, you will need to complete Part II on additional Forms 56. The absorption income computed on Form 56 will be entered on Form 56C, Idaho Net Operating Loss Carryover/Carryback.

APPLICATION OF AN NOL

Use Form 56C to show the application of your NOL to the carryback and carryover years. You may use your own schedule if it is more helpful to you. The Form 56C or your own schedule must be attached to any year to which the NOL is carried.

If the NOL is carried back to a tax year for which a return was previously filed, you must file an amended Idaho return to report the NOL carryback and request a refund. File the appropriate form for each tax year to which the NOL is being applied. Check the "Amended Return" box if available at the top of the form, or if not on the form, write "Amended Return" at the top of the form. Recompute your Idaho taxable income, Idaho tax liability, and any nonrefundable tax credits claimed. Attach a copy of Form 56C or a schedule showing the application of the loss to your amended return.

If you are carrying back the loss, you have until the 15th day of the 40th month following the end of the loss year to file the amended return for the absorption year(s).

If the NOL is being carried forward, subtract the loss on the tax return for the carryover year(s). Attach Form 56C or a schedule showing the application of the loss to your income tax return.

SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the form.

INSTRUCTIONS FOR PART I For Individuals, Trusts and Estates

Use Part I to compute your NOL.

Line 1. Enter the Idaho adjusted income (loss).

- Form 40 filers: line 30 - 2000
line 13 - 2001, 2002 and 2003
- Form 43 filers: line 45, Column B - 2000
line 34, Column B - 2001, 2002 and 2003
- Form 66 filers enter the Idaho taxable income (loss) before the exemption deduction:
line 15 - 2000
line 12 - 2001
line 7 - 2002 and 2003

Line 2. Enter any NOL carryover from prior years if included in the amount on line 1. Enter the amount as a positive number.

Line 3. Enter any capital losses in excess of capital gains included in the amount on line 1. For example, a taxpayer reported a \$4,000 capital gain and a \$5,000 capital loss on federal Schedule D. The capital loss deduction included in Idaho adjusted income (loss) is \$1,000. Enter the amount as a positive number.

Lines 4 and 5 apply to individuals only.

Line 4. Enter any Idaho capital gain deduction allowed in computing Idaho adjusted income (loss). Enter the amount as a positive number.

Line 5. Enter any casualty losses reported on federal Schedule A, Itemized Deductions, provided that the property was physically located in Idaho at the time of the casualty. Use federal Form 4684, Section A, to compute the casualty loss deductible on Schedule A. Enter the amount as a negative number.

Form 43 filers will multiply the Idaho percentage from the loss year return by the amount of casualty loss reported on the federal Schedule A for that year to determine the amount to enter on this line. Enter the amount as a negative number.

INSTRUCTIONS FOR PART II For Individuals, Trusts and Estates

Use Part II to compute the income available to apply the NOL computed in Part I. Complete a separate schedule for each year to which you apply an Idaho NOL.

Line 1. Enter the Idaho adjusted income (loss).

- Form 40 filers: line 30 - 2000
line 13 - 2001, 2002 and 2003
- Form 43 filers: line 45, Column B - 2000
line 34, Column B - 2001, 2002 and 2003

- Form 66 filers enter the Idaho taxable income (loss) before the exemption deduction:
line 15 - 2000
line 12 - 2001
line 7 - 2002 and 2003

Line 2. Enter any NOL carryover from prior years if included in the amount on line 1. Enter the amount as a positive number.

Line 3. Enter any capital losses in excess of capital gains included in the amount on line 1. For example, a taxpayer reported a \$4,000 capital gain and a \$5,000 capital loss on federal Schedule D. The capital loss deduction included in Idaho adjusted income (loss) is \$1,000. Enter the amount as a positive number.

Lines 4 and 5 apply to individuals only.

Line 4. Enter any Idaho capital gain deduction allowed in computing Idaho adjusted income (loss). Enter the amount as a positive number.

Line 5. Enter any casualty losses reported on federal Schedule A, Itemized Deductions, provided that the property is physically located in Idaho at the time of the casualty. Use federal Form 4684, Section A, to compute the casualty loss(es) deductible on Schedule A. Enter the amount as a negative number.

Form 43 filers will multiply the Idaho percentage from the loss year return by the amount of casualty loss reported on the federal Schedule A for that year to determine the amount to enter on this line. Enter the amount as a negative number.

INSTRUCTIONS FOR PART I For Corporations Other Than S Corporations

Use Part I to compute your NOL.

Line 1. Enter the Idaho taxable income (loss) from Form 41.

- 2000 - line 36
- 2001, 2002 and 2003 - line 35

Line 2. Enter any NOL carryover from prior years if included in the amount on line 1. Enter the amount as a positive number.

INSTRUCTIONS FOR PART II For Corporations Other Than S Corporations

Use Part II to compute the income available to apply the NOL computed in Part I. Complete a separate schedule for each year to which you apply an Idaho NOL.

Line 1. Enter the Idaho taxable income (loss) from Form 41.

- 2000 - line 36
- 2001, 2002 and 2003 - line 35

Line 2. Enter any NOL carryover from prior years if included in the amount on line 1. Enter the amount as a positive number.